



**KPMG LLP**  
401 Commerce Street, Suite 1000  
Nashville, TN 37219-2422

January 5, 2010

The Audit Committee  
Knox County, Tennessee

Ladies and Gentlemen:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Knox County, Tennessee (the County), as of and for the year ended June 30, 2009, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the County's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the Student Activity Funds agency fund of the Knox County Board of Education, a discretely presented component unit of Knox County, Tennessee, as of and for the year ended June 30, 2009. The fund financial statements were audited by other auditors whose report thereon dated September 15, 2009, has been furnished to us, and our opinion, insofar as it relates to the amounts included for the entity, is based on the report of the other auditor. Under professional standards, we are providing you with the accompanying information related to the conduct of our audit.

### **Our Responsibility Under Professional Standards**

We are responsible for forming and expressing an opinion about whether the basic financial statements, that have been prepared by management with the oversight of the Audit Committee, are presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles. We have a responsibility to conduct our audit of the basic financial statements in accordance with professional standards. In carrying out this responsibility, we planned and performed the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement, whether caused by error or fraud. Because of the nature of audit evidence and the characteristics of fraud, we are to obtain reasonable, not absolute, assurance that material misstatements are detected. We have no responsibility to plan and perform the audit to obtain reasonable assurance that misstatements, whether caused by error or fraud, that are not material to the basic financial statements are detected. Our audit does not relieve management or the Audit Committee of their responsibilities.

In addition, in planning and performing our audit of the basic financial statements, we considered internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the basic financial statements but not for the purpose of expressing an opinion on the effectiveness of the County's internal control. Accordingly, we do not express an opinion on the effectiveness of the County's internal control.



The Audit Committee  
Knox County, Tennessee  
January 5, 2010  
Page 2

We also have a responsibility to communicate significant matters related to the financial statement audit that are, in our professional judgment, relevant to the responsibilities of the Audit Committee in overseeing the financial reporting process. We are not required to design procedures for the purpose of identifying other matters to communicate to you.

### **Other Information in Documents Containing Audited Basic Financial Statements**

Our responsibility for other information in documents containing the County's basic financial statements and our auditors' report thereon does not extend beyond the financial information identified in our auditors' report, and we have no obligation to perform any procedures to corroborate other information contained in these documents. We have, however, read the other information included with the County's basic financial statements in the 2009 Comprehensive Annual Financial Report and no matters came to our attention that cause us to believe that such information, or its manner of presentation, is materially inconsistent with the information, or manner of its presentation, appearing in the basic financial statements.

### **Accounting Practices and Alternative Treatments**

#### *Significant Accounting Policies*

The significant accounting policies used by the County are described in Note I to the basic financial statements. As discussed in Note IV, the County adopted GASB Statement No. 49, effective July 1, 2008.

#### *Unusual Transactions*

We noted no transactions entered into by the County during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

#### *Alternative Accounting Treatments Within U.S. Generally Accepted Accounting Principles*

There were no alternative accounting policies and practices related to material items discussed with management during fiscal year 2009 and through the date of our report.

#### *Qualitative Aspects of Accounting Practices*

We have discussed with the Audit Committee and management our judgments about the quality, not just the acceptability, of the County's accounting principles as applied in its financial reporting. The discussions generally included such matters as the consistency of the County's accounting policies and their application, and the understandability and completeness of the County's basic financial statements, which include related disclosures.



The Audit Committee  
Knox County, Tennessee  
January 5, 2010  
Page 3

### **Management Judgments and Accounting Estimates**

The preparation of the basic financial statements requires management of the County to make a number of estimates and assumptions relating to the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the basic financial statements and the reported amounts of revenues and expenses during the period.

- Management's estimate of the allowance for uncollectible taxes and other receivables are based on an analysis of historical trends. We evaluated the key factors and assumptions used to develop the allowances in determining that the related net receivables are reasonable in relation to the financial statement of each reporting unit.
- Management's valuation of self-insurance liabilities such as self-insurance claims payable are based on an analysis of historical trends. We evaluated the key factors and assumptions used to develop the liabilities determining that the self-insurance liabilities are reasonable in relation to the financial statement of each reporting unit.
- Management's estimate of the pensions and post-employment benefits other than pensions (OPEB) liability is based on assumptions as to the occurrence of future events affecting costs such as: mortality, withdrawal, disablement and retirement; changes in compensation and government-provided benefits; rise of healthcare costs; rates of investment earnings and asset appreciation. We evaluated the key factors and assumptions used to develop the liabilities in determining that the liabilities are reasonable in relation to the financial statement of each reporting unit.
- Management's estimate of the valuation of non-readily marketable investments held is based on an analysis of the fair market valuations and other information provided by investment managers. We evaluated the key factors and assumptions used to develop the valuation of alternative investments in determining that the valuation is reasonable in relation to the financial statement of each reporting unit.
- Management's estimates of legal liabilities and settlement costs are based upon settlement calculations, historical results and analysis of the current legal environment. We evaluated the key factors and assumptions used to develop the liabilities and settlement costs in determining that they are reasonable in relation to the financial statement of each reporting unit.

### **Uncorrected and Corrected Misstatements**

In connection with our audit of the County's basic financial statements, we have not identified any significant financial statement misstatements in the County's books and records as of and for the year ended June 30, 2009.

### **Disagreements with Management**

There were no disagreements with management on financial accounting and reporting matters that, if not satisfactorily resolved, would have caused a modification of our report on the County's basic financial statements.



The Audit Committee  
Knox County, Tennessee  
January 5, 2010  
Page 4

**Management’s Consultation with other Accountants**

To the best of our knowledge, management has not consulted with or obtained opinions, written or oral, from other independent accountants during the year ended June 30, 2009.

**Significant Issues Discussed, or Subject to Correspondence, with Management**

*Major Issues Discussed with Management Prior to Retention*

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with you and management each year prior to our retention by you as the County’s auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

*Material Written Communications*

The management representation letter is included in Appendix A of the power point presentation for the Audit Committee.

**Significant Difficulties Encountered During the Audit**

We encountered no difficulties in dealing with management in performing our fiscal year 2009 audit. We appreciate the cooperation and assistance of management in completing the 2009 audit.

**Other Significant Findings or Issues**

We noted no other significant findings or issues arising from the audit that are considered significant and relevant to those charged with governance.

**Independence**

Our professional standards and other regulatory requirements specify that we communicate to you in writing, at least annually, all independence-related relationships between our firm and the County and provide confirmation that we are independent accountants with respect to the County.

We are not aware of any additional independence-related relationships between our firm and the County other than the professional services that have been provided to the County, which are summarized below.

We have summarized the approximate fees paid or payable to the firm relating to our audit of the 2009 basic financial statements and other professional services billed in 2009:

Audit:

Audit fees and expenses per executed contract, including OMB  
Circular A-133 audit fees and expenses

\$ 306,625



The Audit Committee  
Knox County, Tennessee  
January 5, 2010  
Page 5

*Confirmation of Audit Independence*

We hereby confirm that as of November 25, 2009, we are independent accountants with respect to the County under all relevant professional and regulatory standards.

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This report to the Audit Committee is intended solely for the information and use of the Audit Committee of Knox County, Tennessee and is not intended to be and should not be used by anyone other than these specified parties. This report is not intended for general use, circulation, or publication and should not be published, circulated, reproduced, or used for any purpose without our prior written permission in each specific instance.

Very truly yours,

**KPMG LLP**